CONGRESSIONAL BUDGET OFFICE
PAY-AS-YOU-GO ESTIMATE

April 13, 1999

H.R. 1212

An act to protect producers of agricultural commodities who applied for a Crop Revenue Coverage PLUS supplemental endorsement for the 1999 crop year

As cleared by the Congress on March 25, 1999

SUMMARY

H.R. 1212 requires the U.S. Department of Agriculture (USDA) to allow certain agricultural producers to modify insurance coverage on certain crops. Any such changes will be administered by USDA's Risk Management Agency (RMA), and can be made no later than April 12, 1999. Because the legislation might affect direct spending from the Federal Crop Insurance Corporation (FCIC) Fund, pay-as-you-go procedures apply. However, CBO estimates that H.R. 1212 will have no significant net effect on outlays in any year.

BACKGROUND

Most "multi-peril" crop insurance sold in the United States is subsidized and reinsured by the FCIC. Because coverage under federally insured policies is limited, some private insurance companies have developed supplemental policies that provide additional coverage at an additional cost. These supplemental policies typically are proprietary and do not receive federal approval, subsidies, or reinsurance. Crop Revenue Coverage PLUS (CRC PLUS) is such a policy.

Developed in 1997 by American Agrisurance, CRC PLUS provides additional coverage beyond that available through Crop Revenue Coverage (CRC), a revenue insurance plan approved, subsidized, and reinsured by FCIC. While producers can buy CRC from any FCIC-approved company, those wanting to buy CRC PLUS are required to purchase the underlying CRC policy from American Agrisurance. For 1998 crops, CRC PLUS was available for crops of corn, cotton, sorghum, soybeans, and wheat in selected states. For 1999 crops, American Agrisurance expanded CRC PLUS availability for these crops to all states where CRC is available and added CRC PLUS coverage for rice in selected states.

Producers must buy or renew crop insurance by the sales closing date for a crop and region. After the sales closing date, they cannot change or buy policies. For CRC PLUS, the sales closing date was March 1 for rice and March 15 for most other crops.

On March 1, 1999, American Agrisurance announced that it would not accept applications for CRC PLUS coverage for rice at the liability levels initially planned. The company cited unanticipated demand for CRC PLUS and potential problems with obtaining reinsurance from private reinsurance markets. Because this announcement was made on the sales closing date for rice, rice producers had almost no opportunity to change their crop insurance coverage in response to the change in terms. Similarly, on March 10, American Agrisurance announced that it was halting all sales of its private supplemental crop insurance products (including CRC PLUS) for other crops. The company indicated that it could not guarantee that all applications made before March 10 would be accepted or that the terms would be the same as initially announced. (Subsequently, American Agrisurance announced that it would accept these applications.) While CRC PLUS applicants for crops other than rice had time to change their policies if they desired, they had less than a week to do so. And because the company wanted time to review applications and obtain reinsurance before they decided whether or not to accept applications, most producers (other than those renewing policies) would not know before March 25—10 days after the sales closing date—if their CRC PLUS applications would be accepted.

Sales closing dates are established in statute. USDA's Risk Management Agency (RMA) announced that, without a change in law, the only options available to a rice producer who applied for CRC PLUS but who did not want it under the changed terms or whose application was not accepted would only have three options: (1) maintain the levels of coverage for the original CRC contract, (2) drop back to the much lower protection of catastrophic crop (CAT) insurance coverage, or (3) drop crop insurance completely. RMA did not announce at that time what options would be available for other affected producers and crops, but it was likely that the options would be the same.

DESCRIPTION OF THE LEGISLATION’S MAJOR PROVISIONS

H.R. 1212 allows an eligible producer who applied to purchase CRC PLUS for a spring-planted crop to modify the coverage of the underlying CRC policy—either to lower the CRC coverage or switch to another insurance plan at the same or lower coverage level. In addition, a producer may transfer policies for all crops to an insurance provider other than American Agrisurance but may not change coverage levels for non-CRC PLUS crops. Any changes have to be made no later than April 12, 1999.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

H.R. 1212 could affect direct spending for crop insurance coverage subsidized by the federal government. Because CRC PLUS is not federally insured, the impact on direct spending depends on any changes that producers choose to make to the underlying CRC policy. In general, if insurance coverage is lower, federal spending is likely to be lower, and vice versa.

Direct spending would decrease for producers who would have retained a CRC policy but who choose to reduce their coverage level or switch to a lower-cost plan. Direct spending would increase for producers who would have dropped crop insurance or retained only catastrophic coverage but who choose to purchase a non-CRC policy and for producers who purchase higher coverage because of weather or other crop problems occurring after the original sales closing dates.

CBO expects that possible decreases and increases in government costs will be small and largely offsetting—especially given that H.R. 1212 restricts the number of producers and crops affected, the allowed changes in coverage levels, and the length of the new enrollment period. Thus, CBO estimates that H.R. 1212 will have no significant net effect on direct spending.

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